



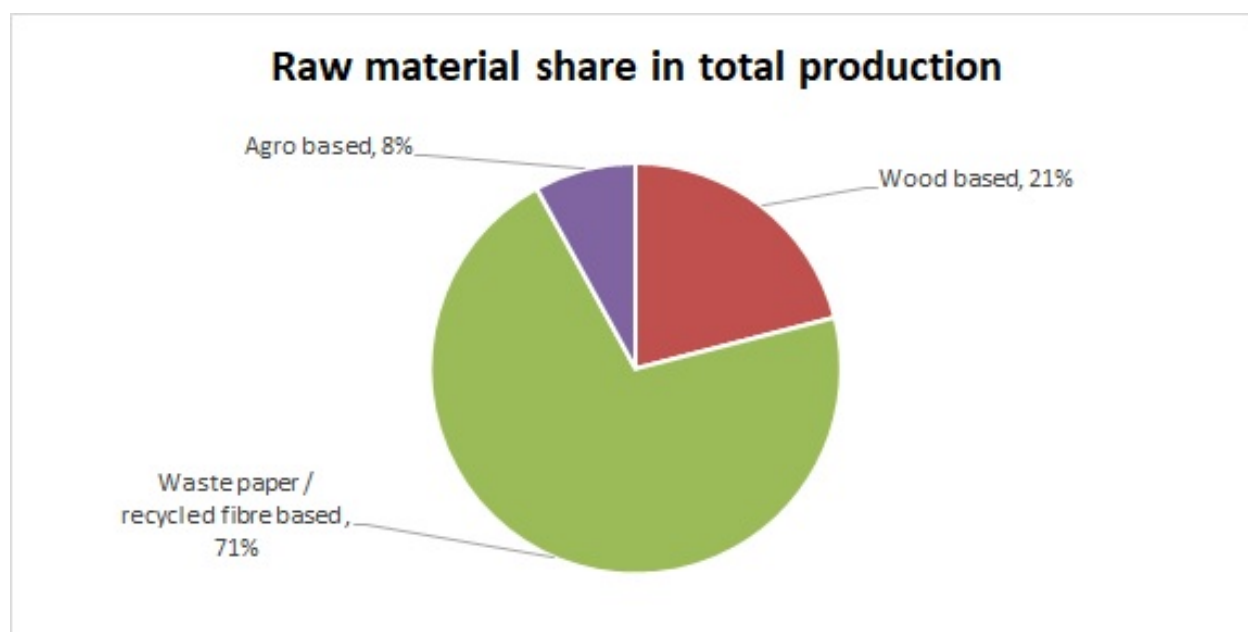
PAPER INDUSTRY ANALYSIS

December 2022



The paper industry in India has been in existence since ancient times, experiencing a paradigm change over the years. The industry accounts for about 5% of the world's production of paper. Initially, the paper industry was majorly dependent on wood as a raw material. However, due to increasing awareness and restrictions on cutting trees, focus has slowly shifted to waste paper and agro residue. India's paper industry has agroforestry roots and strong backward linkages with the farming community, from whom wood, which is a key raw material, is sourced. The paper industry in the country has undergone a transformation of sorts in the last few years. The industry has gone up the sustainability curve and has become far more technologically advanced. During the decade 2010 to 2020 Indian Paper Industry registered a substantial growth which resulted in a two fold increase in production from 10.99 million tons (2010) to 21.36 million tons (2020). This growth story of Indian Paper Industry has been hampered due to the pandemic situation. Every sector of the industry was forced to stop operations due to nationwide lockdown imposed after March 2020. Initially, Indian Paper Industry also shut down the operation but after few weeks, paper sector was recognized as an essential service in many states and was allowed to operate with strict COVID Norms. Upon resumption of operations, strong demand of pharmaceutical sector, FMCG sector, online shopping, and increase use of hygienic paper products etc., gave the momentum to the packaging segment. Also, high spending in education coupled with growth in organized retail and demand for better quality paper are triggering factors of growth prospects of Indian Paper Industry.

Most of the paper mills are in existence for a long time and hence present technologies fall in a wide spectrum ranging from oldest to the most modern. At present there are over 850 paper mills manufacturing a wide variety of items required by the consumers. These paper mills are manufacturing industrial grades, cultural grades and other specialty papers. The paper industry in India could be classified into 3 categories according to the raw material consumed - wood based, agro based & waste paper / recycled fibre based. In terms of share in total production, around 21% are wood based, 71% on waste paper / recycled fibre based and 8% on agro based. The paper Industry holds immense potential for growth in India as the per capita consumption is one of the lowest at around 15 kg, which is way behind the global average of 57 kg.

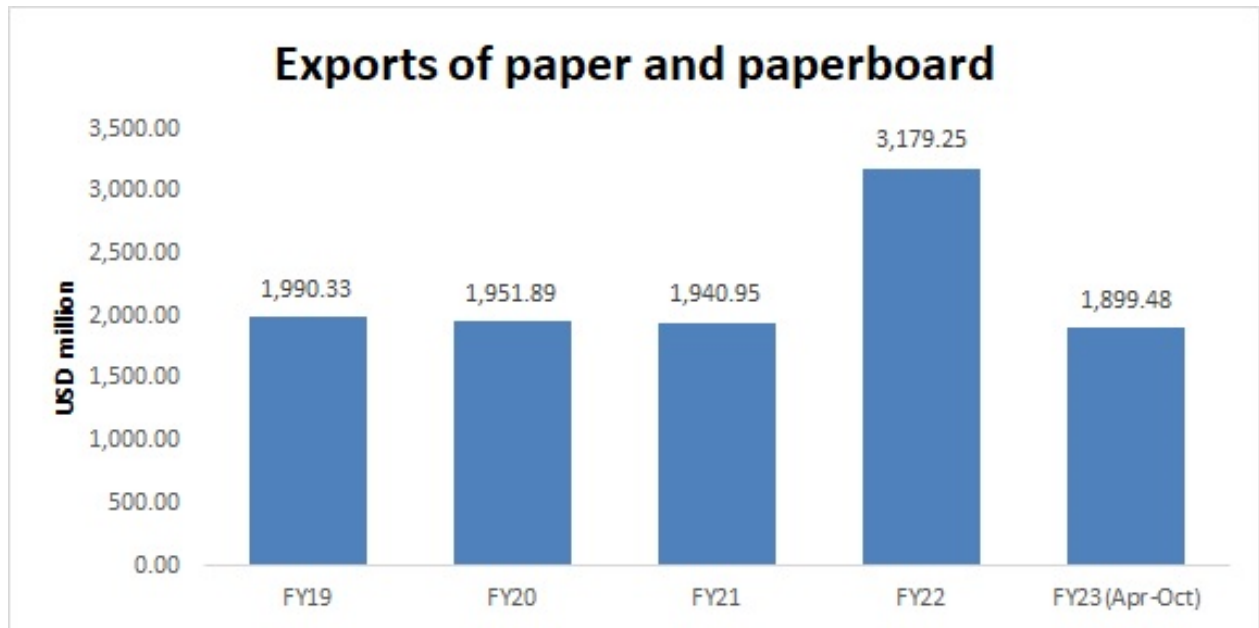


Paper production

The industry body -- Indian Paper Manufacturers Association's (IPMA) data showed that paper production in 2021-22 was 4321 thousand tonnes, whereas sales (domestic) was 3710 thousand tonnes. Meanwhile, installed capacity of paper & paperboard stood at 4826 thousand tonnes per annum in 2021-22 and capacity utilization was 89.55%. Of the total paper production, Writing & printing paper production was 2380 thousand tonnes, Packaging paper / Paperboard was 1648 thousand tonnes, MG variety / poster was 130 thousand tonnes, Specialty paper (including tissue paper) was 158 thousand tonnes and Others 5 was thousand tonnes. Moreover, the demand for paper in the country is bound to grow to 30 Million Tonnes by the year 2026-27 from the present consumption of 24 million tonnes. The Indian paper industry provides direct employment to around 500,000 people, and indirectly to around 1.5 million.

Exports

The share of paper and paperboard; articles of paper pulp, of paper or of paperboard in the overall exports during April-October period of fiscal year 2022-23 (FY23) was 0.72%. During the reporting period, exports of paper and paperboard; articles of paper pulp, of paper or of paperboard stood at \$1,899.48 million. In FY22, exports was \$ 3,179.25 million, 63.80% higher as compared to \$ 1,940.95 million exports in the corresponding period of pervious year. Before that, exports was \$ 1,951.89 million and \$ 1,990.33 million in the fiscal year 2019-20 and 2018-19, respectively.



Additionally, exports of pulp of wood or of other fibrous cellulosic material; waste and scrap of paper or paperboard stood at \$ 1.25 million in April-October period of FY23, while printed books, newspapers, pictures and other products of the printing industry; manuscripts, typescripts and plans exports was \$ 212.70 million in the same period.

Imports

The imports of paper and paperboard; articles of paper pulp, of paper or of paperboard stood at \$1,869.87 million in the April-October period of FY23, while its share in overall exports was 0.43%. In the fiscal year 2021-22 (FY22) (April-March) imports of paper and paperboard; articles of paper pulp, of paper or of paperboard increased by 28.40% to \$2,265.75 million as compared to \$1,764.56 million in FY21. Prior to that imports were \$2,719.18 million in FY20 and \$3,089.37 million in FY19. Meanwhile, the commerce and industry ministry made import registration under PIMS mandatory for inbound shipments of 201 types of paper and paper boards such as glazed newsprint, handmade paper and tissue paper.

Imports of paper and paperboard



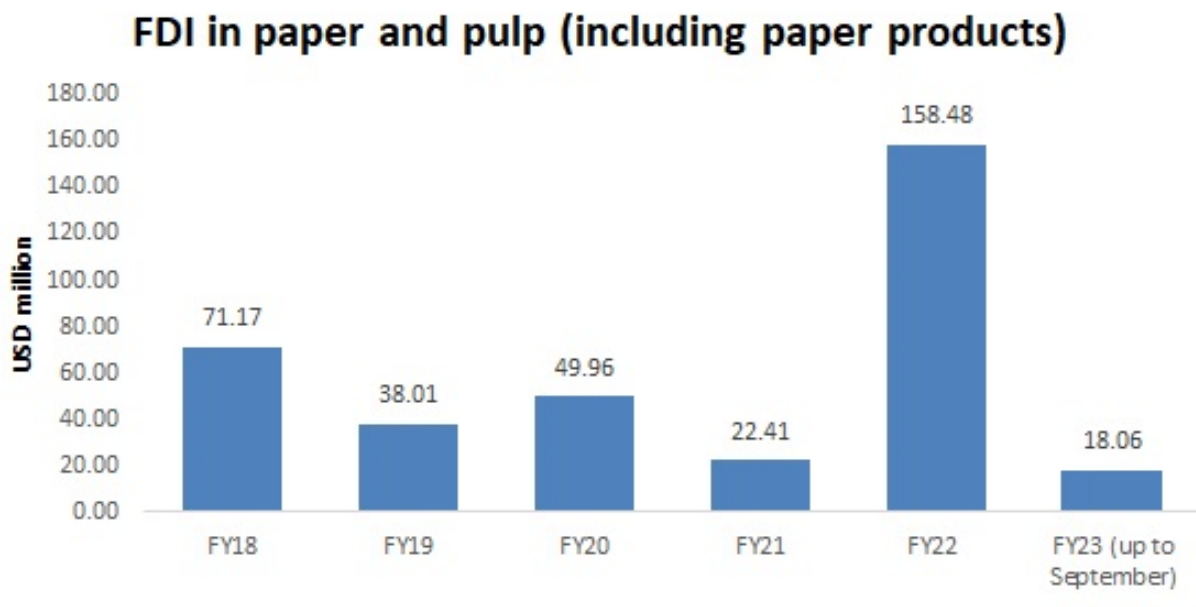
Moreover, imports of pulp of wood or of other fibrous cellulosic material; waste and scrap of paper or paperboard stood at \$ 2,375.52 million in April-October period of FY23, while it accounts for 0.54% of overall imports of the country. On the other hand, imports of printed books, newspapers, pictures and other products of the printing industry; manuscripts, typescripts and plans stood at \$202.62 million in same period.

Positives for the industry

E-commerce growth to provide support to the paper industry: E-commerce boom in the country is likely to help paper industry enter new phase of growth. Increasing number of internet users and rising middle-class in the society with higher disposable income has boosted the demand for paper packaging products in the shipment industry. This seems like it will continue for years to come. Indian e-commerce market is likely to grow to \$228 billion by 2030, as it is still below the current market size in China (\$328 billion) and the US (\$281 billion). The industry is entering new phase of growth and this will surely help paper packaging industry in coming time.



Increasing FDI in Paper and Pulp (Including Paper Products): The Paper and Pulp industry (including paper products) attracted Foreign Direct Investment (FDI) worth \$1,649.52 million or Rs 9,371.17 crore between April 2000 and September 2022, which is 0.27% of total FDI. During fiscal year 2022–23 (FY23), the Paper and Pulp industry attracted FDI worth \$ 18.06 million or Rs 142.02 crore up to September 2022. During FY22, the industry attracted FDI worth \$ 158.48 million or Rs 1,166.14 crore much higher as compared to \$ 22.41 million or Rs 166.66 crore in the FY21. In FY22, the FDI showed robust growth as in FY21 it was impacted due to covid lockdowns and restrictions all over the world.



Ban on single use plastic: The ban on the use of plastics in a wide variety of applications that has been put in place by the Govt of India with effect from July 01, 2022, will give a big boost to paper production in the country. While that's bad news for plastics companies, it's a boon for paper companies, as they will likely be called on to provide replacements. There are various applications where the paper industry can chip in such as paper bags, straws, and cutlery. This is likely to lead to a variety of paper qualities finding its way into the market, filling up the huge gap left behind by the plastic ban. The list of items that are banned includes plastic carry bags, earbuds and balloons with plastic sticks, plastic flags, candy and ice-cream sticks, polystyrene for decoration, disposable crockery (plates, cups, glasses, forks, spoons, knives, trays), wrapping or packaging films around sweet boxes, invitation cards, and PVC banners under 100 microns.

Concerns for the industry

Wood fibre deficient: India is a wood fibre deficient country and inadequate raw material availability domestically is a major constraint for the paper industry. Around 90% of the wood demand is met through industry driven agro/ social forestry (1 million hectares), while 10% through government sources and imports. Currently, demand for the pulpable wood by paper industry is around 11 million tonnes per annum (TPA), while domestic availability is 9 million TPA. Moreover, the demand is projected to rise around 15 million TPA by 2024–25.



Government initiatives

• **Launch of Paper Import Monitoring System:** The commerce and industry ministry has made import registration under PIMS mandatory for inbound shipments of 201 types of paper and paper boards such as glazed newsprint, handmade paper and tissue paper. The ministry has launched the Paper Import Monitoring System (PIMS), under which an importer will have to provide advance information online about the import of these papers and obtain a registration number. It said that the importer can apply for registration not earlier than five day before the expected date of arrival of import consignment. The automatic registration number will remain valid for 75 days. The PIMS is in effect from October 1, 2022, allowing bill of entry on or after October 1, 2022.

Maharashtra state govt approves paper manufacturing project: A pulp paper manufacturing project in Raigad worth Rs 20,000 crore has been approved on October 20, 2022, by the Maharashtra state cabinet committee for industries. The Rs 20,000 crore will be invested in two phases and accordingly, 300 acres of land has already been allotted for this project at Dherand in Raigad district, and the government intends to provide more land as per the demand of the project. The project will be set up by The Indonesia-based Sinar Mas Pulp & Paper Pvt Ltd (Asia Paper & Pulp) which is the largest paper manufacturing group in Asia.

Recent developments

- The Competition Commission has directed four associations of kraft paper manufacturers and their 115 members to cease and desist from unfair business practices. They were found to have entered into anti-competitive agreements but the watchdog decided not to impose any monetary penalties as many of the entities are Micro Small and Medium Enterprises (MSMEs) and several of them adopted a non-adversarial approach during the probe.
- The European Union (EU) has lifted its ban on exports of waste paper to India from April 1, 2022, providing relief to the paper industry affected by the raw material shortage. Waste cuttings or papers are one of the important raw materials for the paper industry, particularly for manufacturing kraft paper which in turn is used for making brown or corrugated boxes used for packing all items from FMCG to electronics. The EU had banned the exports of these cuttings in November last year. When India raised the issue, the officials there attributed it to a clerical error.

Outlook

Indian paper industry is exhibiting 'one of the fastest growing industry' and likely to continue this trajectory in coming time as Indian economy is better placed despite global disturbances. Paper plays a key role in communication and as a packaging material. Demand for paper is closely linked to the prevalent economy conditions. Paper continues to enjoy a relatively healthy demand on account of lifecycle of a paper product from manufacture to consumption and disposal is short, as paper is used more in the nature of a consumable and not as a durable; wide usage, right from an individual to a corporate entity; and no real low cost substitutes for paper. The growing retail and e-commerce industries, coupled with the growing demand for environment-friendly packaging products, are likely to emerge as key factors prompting growth in the industry. With growth in online shopping, the requirement for secondary and tertiary paper packaging products has grown considerably coupled with a growing consciousness around sustainable packaging.



Furthermore, a variety of paper products finding its way into the market due to the ban placed on use of certain plastic items. Various developed and emerging countries are promoting the use of paper-based products as an alternative to plastic. The demand is also likely to grow on account of an anticipated pick-up from the education sector with improving literacy rates and growing enrolment as well as an increasing number of schools and colleges. The demand for the writing and printing paper is likely to rise on account of the implementation of the National Educational Policy 2020, which will result in publication of new books under the revised curriculum.



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